

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-13 ISO-00 EURE-00 SP-02 AID-05

EB-07 NSC-05 CIEP-02 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06

LAB-04 SIL-01 DODE-00 PA-02 PRS-01 L-03 H-02 AGRE-00

ITC-01 FEAEE-00 IGA-02 SSO-00 NSCE-00 INRE-00 USIE-00

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O R 271813Z OCT 76

FM AMEMBASSY LONDON

TO TREASURY DEPT WASHDC IMMEDIATE

SECSTATE WASHDC 6979

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY DUBLIN

AMEMBASSY NEW DELHI

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDEL MTN GENEVA

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DEPARTMENT PASS FEDERAL RESERVE BOARD

TREASURY FOR DONALD E. SYVRUD, OASIA

E.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD OCT. 21 - 27

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SUMMARY: STERLING'S DECLINE TO THE DOLLARS 1.57 - 1 60 RANGE CREATED FURTHER COMPLICATIONS FOR HMG AS IT PREPARED FOR MEETINGS WITH THE IMF ON ITS 3 9 BILLION DOLLAR LOAN APPLICATION. A SMALL REDUCTION IN UNEMPLOYMENT WAS THE SOLE UPBEAT ECONOMIC INDICATOR AVERAGE EARNINGS ROSE AT A RATE WELL IN EXCESS OF THE GOVERNMENT TARGET. REAL CONSUMER EXPENDITURE RECOVERED ITS SECOND QUARTER LOSS BUT STILL REMAINED SLIGHTLY BELOW THE FIRST QUARTER LEVEL. NO ENCOURAGEMENT FOR AN EARLY RESUMPTION OF SLOWER RETAIL PRICE INCREASES WAS CONTAINED IN THE LATEST QUARTERLY REPORT OF THE PRICE COMMISSION. END SUMMARY.

L STERLING TRADED NERVOUSLY BUT MAINTAINED A LEVEL JUST UNDER 1.65 DURING THE WEEK ENDED OCTOBER 22. ON MONDAY, OCTOBER 25, HOWEVER, THE POUND CLOSED AT 1.5950, DOWN 5.25 CENTS FROM FRIDAY'S CLOSING RATE. ONE OF THE MOST DRAMATIC FALLS IN RECENT U.K. EXPERIENCE. THIS FALL HAS BEEN ALMOST UNIVERSALLY ATTRIBUTED TO AN ARTICLE IN THE SUNDAY TIMES WHICH ALLEGED THAT THE IMF STAFF WITH U.S. TREASURY SUPPORT INTENDED TO RECOMMEND A \$1.50 TARGET EXCHANGE RATE FOR THE POUND. DENIALS BY THE HIGHEST FINANCIAL OFFICIALS OF BOTH THE U.S. AND THE U.K. COULD NOT REVERSE THE FALL. TRADING HAS BEEN EXTREMELY NERVOUS, AND THE EXCHANGE RATE ERRATIC SINCE MONDAY. WITH EXTREMELY LARGE BID-OFFER SPREADS.

2. INTEREST RATES CONTINUED TO RISE. STERLING CERTIFIES OF DEPOSITS ROSE FROM 1/4 TO 1/2 PERCENT. LLOYDS AND NATIONAL WESTMINSTER INCREASED THEIR BASE LENDING RATE TO 14 PERCENT, THUS MOVING IN LINE WITH BARCLAYS AND MIDLAND GILT PRICES FELL OVER THE WEEK AS WELL.

3. THE POUND'S SHARP FALL HAS LED PRIME MINISTER CALLAGHAN. IN A BBC INTERVIEW AND IN AN EXCHANGE IN THE HOUSE COMMONS, TO ASSERT THE NECESSITY OF REFUNDING OUTSTANDING STERLING BALANCES. THE PRIME MINISTER COUPLED THIS POLICY WITH BRITAIN'S POLICIES TOWARD EUROPEAN SECURITY. HE STATED IN THE BBC INTERVIEW "IF WE ARE PUSHED BECAUSE THERE IS A SHORT TERM PROBLEM INTO A POSITION WHERE WE UNCLASSIFIED

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WOULD HAVE TO MAKE A CHOICE AS TO WHETHER TO CARRY ON THESE RESPONSIBILITIES OR WHETHER WE HAVE TO SAY, 'SORRY OUR ECONOMIC SITUATION DEMANDS THAT WE PUT OUR OWN POSITION FIRST.' THIS WOULD BE A VERY SERIOUS MATTER FOR EUROPE."

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ACTION EUR-12

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AID-05 CIAE-00 COME-00 EB-07 FRB-01 INR-07 NSAE-00

XMB-04 OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01 OMB-01

SSO-00 NSCE-00 INRE-00 NSC-05 SS-15 STR-04 CEA-01

DODE-00 PA-02 PRS-01 L-03 H-02 AGRE-00 ITC-01 FEAЕ-00

IGA-02 /121 W

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O R 271813Z OCT 76 ZFF-4

FM AMEMBASSY LONDON

TO TREASURY DEPT WASHDC IMMEDIATE

SECSTATE WASHDC 6980

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY DUBLIN

AMEMBASSY NEW DELHI

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

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4. UNEMPLOYMENT. UNEMPLOYMENT DECLINED IN OCTOBER. FOR THE FIRST TIME SINCE MARCH THE TOTAL NUMBER OF UNEMPLOYED DECLINED, BOTH ON A CRUDE BASIS AS WELL AS SEASONALLY ADJUSTED AND EXCLUDING SCHOOL LEAVERS. THE OVERALL JOB-
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LESS TOTAL DECLINED BY 13,100 (S.A.) IN OCTOBER TO 1,3062 (5.5 PERCENT) WHILE THERE WAS A DECLINE OF 79,300 IN THE UNADJUSTED FIGURES 1,3771 MILLION (5.8 PERCENT). FOR FURTHER DETAILS SEE SEPTEL.

5. WAGES AND EARNINGS. BASIC HOURLY WAGES SHOWED LITTLE INCREASE IN SEPTEMBER WHILE AVERAGE EARNINGS ROSE SIGNIFICANTLY IN AUGUST. THE INDEX OF BASIC HOURLY WAGES (JULY 31, 1970 EQUALS 100) STOOD AT 218.7 IN SEPTEMBER. VIRTUALLY UNCHANGED FROM THE AUGUST FIGURES OF 218.6 IN THE 12 MONTHS ENDING IN SEPTEMBER, BASIC WAGES INCREASED BY 17.6 PERCENT. HOWEVER, SINCE JANUARY A DOWNWARD TREND HAS BEEN CONVINCINGLY ESTABLISHED. BETWEEN EACH OF THE FIRST THREE QUARTERS OF 1976 THE INDEX ROSE BY A SMALLER AMOUNT. THE RESPECTIVE PERCENTAGE INCREASES ARE:

1976 - 1 6.0
1976 - 2 3.6
1976 - 3 2.7

THIS TREND SHOULD CONTINUE AS THE SECOND STAGE OF INCOMES POLICY BEGINS TO AFFECT LARGER NUMBERS OF WORKERS. AVERAGE EARNINGS ARE NOT BEHAVING AS ANTICIPATED. THE LATEST FIGURES INDICATE THAT THE INDEX OF AVERAGE EARNINGS (JANUARY 1970 EQUALS 100) ROSE BY 1.4 PERCENT IN AUGUST TO 267.7 FROM THE JULY FIGURE OF 263.5. OVER THE LATEST TWO MONTHS THE INDEX HAS RISEN BY 3.6 PERCENT, A PACE WHICH, IF CONTINUED, WOULD PUSH AVERAGE EARNINGS FAR ABOVE THE 7.8 INCREASE PROJECTED FOR THE 12 MONTHS THROUGH JULY 1977 WHEN THE CURRENT INCOMES POLICY EXPIRES. THE INDEX CURRENTLY STANDS 14.4 PERCENT ABOVE ITS LEVEL OF AUGUST 1975. SOME OF THE RECENT INCREASE HAS BEEN ATTRIBUTED TO INCREASED OVERTIME WORKING (UP 1.1 PERCENT OVER AUGUST 1975) AND JOB REGRADING DONE TO GET AROUND THE COMPRESSION IN WAGE DIFFERENTIALS IMPOSED BY THE PAY POLICY.

6. CONSUMER EXPENDITURE. THE INITIAL PROVISIONAL ESTIMATE OF REAL CONSUMER SPENDING DURING THE THIRD QUARTER INDICATES THAT MOST OF THE SECOND QUARTER DECLINE HAS BEEN RECOUPED. CONSUMER EXPENDITURE, EXPRESSED IN 1970 PRICES, WAS ESTIMATED AT 8,860 BILLION POUNDS DURING THE THIRD QUARTER. A RISE OF 71 MILLION POUNDS (0.8 PERCENT) FROM THE SECOND QUARTER FIGURE OF 8,789 BILLION DESPITE

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THIS INCREASE. CONSUMER SPENDING HAS REMAINED FLAT BETWEEN THE SIX MONTHS THROUGH SEPTEMBER AND THE PREVIOUS

SIX MONTH OERIOD. OVER A SOMEWHAT LONGER PERIOD, A COMPARISON OF CONSUMER EXPENDITURE FOR THE FOUR QUARTERS ENDING IN 1976 - 3 WITH THE PREVIOUS FOUR QUARTERS SHOWS A DECLINE OF 1.1 PERCENT. CONSUMER BEHAVIOR HAS BEEN REFLECTING THE SQUEEZE ON REAL INCOMES THAT HAS COME ABOUT AS A RESULT OF WAGE RESTRAINT AND RISING UNEMPLOYMENT. THIS PATTERN IS LIKELY TO PERSIST IN THE COMING MONTHS ALTHOUGH ONE SHOT FACTORS SUCH AS THE TAX REBATE IN THE THIRD QUARTER MAY PRODUCE SOME TEMPORARY VARIANCE FROM THE UNDERLYING TREND.

7. PRICE COMMISSION REPORT IN ITS LATEST QUARTERLY REPORT COVERING THE THREE MONTHS THROUGH AUGUST, THE PRICE COMMISSION EXPRESSED THE VIEW THAT PROSPECTS FOR FURTHER REDUCTIONS IN THE RATE OF PRICE INCREASE WERE "NOT ENCOURAGING". THE TREND TOWARD EASING IN THE RATE OF PRICE INCREASES HAD BEEN REVERSED OVER THE PERIOD COVERED BY THE REPORT. THE COMMISSION'S INDEX OF PLANNED PRICE INCREASES REPORTED BY FIRMS ROSE BY 3.7 PERCENT COMPARED WITH 2.3 PERCENT DURING THE PREVIOUS QUARTER. THE COMMISSION STATED THAT INFLATION WOULD REMAIN STUCK AT PRESENT LEVELS UNTIL THE FULL EFFECTS OF THE CURRENT INCOMES POLICY BECAME MANIFEST IN 1977. IN CONTROLLING PRICE INCREASES, THE COMMISSION USES 1973 PROFIT MARGINS AS A REFERENCE. IN ITS LATEST REPORT, IT OBSERVES THAT PROFIT MARGINS HAVE IMPROVED FOR BOTH CATEGORY 1 FIRMS (THE LARGEST MANUFACTURING AND SERVICE COMPANIES) AND CATEGORY 2 FIRMS (THOSE OF THE SECOND RANK). IN THE CASE OF THE FORMER MARGINS INCREASED FROM 55 PERCENT OF THE BASE LEVEL DURING THE FIRST QUARTER OF 1976 TO 61.5 PERCENT DURING THE LATEST 3 MONTHS. FOR CATEGORY 2 FIRMS

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CIAE-00 COME-00 EB-07 FRB-01 INR-07 NSAE-00 XMB-04

OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 SSO-00

NSCE-00 INRE-00 NSC-05 SS-15 STR-04 CEA-01 DODE-00

PA-02 PRS-01 L-03 H-02 AGRE-00 ITC-01 FEA-01 IGA-02

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O R 271813Z OCT 76 ZFF-4
FM AMEMBASSY LONDON
TO TREASURY DEPT WASHDC IMMEDIATE
SECSTATE WASHDC 6981
INFO AMEMBASSY BONN
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MARGINS INCREASED FROM 52.6 PERCENT TO 57.6 PERCENT. IN
THE CASE OF CATEGORY 1 FIRMS, PROFIT MARGINS WERE HIGHER
THAN AT ANY TIME IN THE LAST TWO YEARS.

8. EXCHANGE RATE AND GOLD

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EFFECTIVE
EXCHANGE DEPRECIATION GOLD

| DATE | (RATE \$) | (PERCENT) | (\$) |
|-------|-----------|-----------|---------|
| 10/20 | 1 6470 | 45.5 | 115-1/8 |
| 10/21 | 1.6472 | 45.4 | 116-1/8 |
| 10/22 | 1.6475 | 45 3 | 115-7/8 |
| 10/25 | 1 5950 | 47.6 | 116-1/8 |
| 10/26 | 1.5850 | 47 1 | 117.5/8 |

CHANGE 10/19 - 10/26 DN 0.0635 WIDN. 1.6 UP 2-1/2

9. FORWARD DISCOUNT ON STERLING

| DATE | 1 MONTH | 3 MONTHS | 6 MONTHS |
|-------|---------|----------|----------|
| 10/10 | 2.28 | 6.03 | 10.14 |
| 10/21 | 2.12 | 5.67 | 9 91 |
| 10/22 | 1 87 | 5 42 | 9 68 |

10/25 2 35 6.05 10.35
10/26 2 17 5.88 10 20

CHANGE 10/19-10/26 NAR. 0 11 WIDN 0 11 WIDN. 0.05
(ALL FIGURES IN CENTS)

10. EURODOLLAR INTEREST RATES

| DATE | 1 MONTH | 3 MONTHS | 6 MONTHS |
|-------|---------|----------|----------|
| 10/20 | 4-7/8 | 5-3/8 | 5-1/2 |
| 10/21 | 5-1/4 | 5-3/8 | 5-3/4 |
| 10/22 | 5-1/4 | 5-3/8 | 5-7/8 |
| 10/25 | 5-1/8 | 5 1/2 | 5-7/8 |
| 10/26 | 5-1/8 | 5-1/2 | 5.7/8 |

CHANGE 10/19-10/26 UP 1/8 UP 1/8 UP 1/8

11. THREE-MONTH LONDON INTERBANK - EURODOLLAR INTEREST

RATE DIFFERENTIAL

| DATE | |
|----------|---------|
| 10/20 | 9-21/32 |
| 10/21 | 9-5/8 |
| \$ 10/22 | 9-1/2 |
| 10/25 | 9-23/32 |
| 10/26 | 10 |

CHANGE 10/19-10/26 WIDENED 15/32

12. STERLING CERTIFICATES OF DEPOSIT

DATE 1 MONTH 3 MONTHS 6 MONTHS

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| | | | |
|-------|----------|----------|----------|
| 10/20 | 15 | 15 | 14-25/32 |
| 10/21 | 15 | 15 | L4 25/32 |
| 10/22 | 14-59/64 | 14-59/64 | 14-11/16 |
| 10/25 | 15-3/32 | 15-3/32 | 14-15/16 |
| 10/26 | 15-1/4 | 15-9/32 | 15-3/16 |

CHANGE 10/19-10/26 UP 5/16 UP 11/32 UP 17/32

13. THE MINIMUM LENDING RATE REMAINED AT 15 PERCENT, UNCHANGED SINCE OCTOBER 7. 1976. THE TREASURY BILL RATE ROSE BY .1344 PERCENT TO 14 5166 PERCENT AT OCTOBER 22'S TENDER. THEREBY MAINTAINING CONSISTENCY WITH A 15 PERCENT MINIMUM LENDING RATE. FIVE HUNDRED MILLION POUNDS OF BILLS WERE TENDERED AND ALLOTTED, ATTRACTING BIDS OF 1080 MILLION POUNDS. NEXT WEEK 400 MILLION POUNDS WILL BE TENDERED, TO REPLACE 600 MILLION POUNDS MATURING.

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Disposition Approved on Date:
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Disposition Date: 01 JAN 1960
Disposition Event:
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